

Letter to Shareholders

The third quarter of 2008 represented a major shift in the market conditions impacting the business model of the Company. July saw the highest wellhead pricing and wellhead netbacks in our history, \$94.01 and \$53.08 respectively which declined throughout the period to an average of \$71.32 and \$32.90 in September. These values have continued to decline into the fourth quarter as overall market conditions also continued to deteriorate. This fall was partially offset by a historic weakening of the Canadian dollar which fell from approximately par at the beginning of July to under \$0.80 at times during October. As essentially all of our product sales trade in reference to US dollars, a falling Canadian dollar helps mitigate the impact of falling oil and natural gas prices as the majority of our costs are in Canadian dollars. While our long term outlook on commodity prices and in particular heavy oil prices remains highly positive, we have adjusted our budget and financial outlooks to reflect the difficult pricing environment we are currently experiencing.

The Company remains dedicated to our capital budget philosophy, which is to fund capital programs based on available cash flow from operations and proceeds from non-core asset sales. As such, as a result of the dramatic decrease in current commodity prices we have deferred several of the projects in our recently announced budget to result in a firm budget of approximately \$110 million for 2008. As a result, some anticipated production increases and pilot advancement activities will be delayed. It is the Company's intention to re-instate these deferred projects when the prices for oil and natural gas return to more normal levels.

On the positive front, the Company has a very strong balance sheet and is well positioned to weather the current financial crisis. Due to the sale of \$79 million in non-core producing assets and cash flow from operations of approximately \$68.5 million, to the end of Q3, including a strong quarterly cash flow performance of \$21 million in the third quarter, we find ourselves in the enviable position of having a \$36 million working capital surplus, a \$47 million undrawn credit facility with Alberta Treasury Branch ("ATB") and have no requirements to raise additional financing through either debt or equity, despite an aggressive 2008 capital spending program being undertaken on our four core assets.

We have made good progress on all four core assets with each of them making significant strides down the path to adding value in terms of our core strategy of converting resources first to reserves and then ultimately to production and cash flow. We have production pilots up and running at three of these core assets (Mooney, Onion Lake and San Miguel) and have increased our ownership interests and are working towards pilot implementation on our Blackrod project.

At Mooney, the most significant events were the initiation of the water flood and the commencement of injection of polymer at the pilot project. The water flood includes the drilling of 7 additional wells and will essentially be completed by the end of the year. Implementation of the water flood is critical for maintaining reservoir pressure and should help check the current declines in the field. Polymer injection commenced on October 30th and results are expected to be observed in the next three to six months. Polymer flooding has the potential to significantly increase both production rates and recoveries in the field if successful.

At Onion Lake, the cyclic steam stimulation ("CSS") pilot project continued to produce positive results. The first well (Z1) had sustained flow rates of over 150 barrels of oil per day in the first production cycle, approximately 3 times greater than our modeled expectations. The second well (Z2) encountered some mechanical issues, but still achieved a rate of over 70 barrels of oil per day. Z1 is currently undergoing the second injection cycle with the second production cycle at Z1 expected to commence in mid-November. The Z2 well should begin the second steam injection cycle in the next couple of weeks. Based on the positive results to date, up to 3 additional CSS wells are being planned in order to better quantify the reservoir distribution and performance. It is expected that a decision on whether to go ahead with the first phase of a commercial steam development will be made by mid-year 2009.

At San Miguel, the Chittum Steam Assisted Gravity Drainage (“SAGD”) pilot, in the central portion of the field, was put on full SAGD mode in September and we have seen the first production start to ramp-up in the producing well. It will likely take several months for the steam chamber to build to sufficient size to allow the well to achieve full production rates, but initial results are encouraging. The Saner pilot, in the northern portion of the field, utilizes the Fracture Assisted Steam Technology (“FAST”) used by Conoco in their original pilot and is currently injecting steam in the pre-heating phase. This pilot will use horizontal wells in a portion of the pilot area, as opposed to all vertical wells used by Conoco. In parallel with these pilots, numerous commercial optimization studies including the fuel source selection for steam generation and the marketing of the very heavy oil in this project are being investigated. It is expected that both the pilot and the commercial study results will be completed by mid-year 2009 and thus a commercial development decision can be made at that time.

At Blackrod, we are awaiting approvals from the Alberta and Canadian Federal regulatory agencies for our SAGD pilot project. The winter season in 2008 / 2009 will be used to gather additional essential information including cores, water source and disposal information and oil viscosity data. We are targeting a startup date for the Blackrod pilot in the first quarter of 2010. As previously announced we acquired an additional 30% working interest in the Blackrod project on August 20, 2008. In addition, in September and early October, we acquired approximately net 36 sections of crown lands in the area and very recently we have entered into an agreement with our remaining partner Serrano Energy Ltd. (“Serrano”) to swap our equity interests in Serrano for a 15% increased interest in the Blackrod project and a carried work commitment of \$5 million. We expect to close this transaction prior to year end. We have the right and we intend to become operator of the Blackrod project as soon as reasonably practicable.

Our production averaged 5,776 Boed per day during the third quarter down from 8,246 Boed day in the second quarter. The three primary reasons for this drop were the aforementioned sale of non-core producing properties, the forced shut-in of approximately 700 Boed from our Mooney Field due to CO₂ content in the gas greater than permitted on the pipeline and natural declines. We have solved the CO₂ issues through the installation of an amine plant to remove excess CO₂ from our solution gas. Productive capacity is now over 6000 Boed. We expect to exit the year at between 6000 and 7000 Boed. This production is not only vital to our cash flow for development activities but will also be helpful in our resource to reserves strategy.

Despite the current impact of low oil and natural gas prices on our near term cash flow, we remain very encouraged on the value and viability of our large scale heavy oil fields. Our strong balance sheet will allow us to emerge from this crisis in a very favorable position at a time when reserves will hopefully be at a premium as more and more projects are put on hold or delayed. Existing announced refinery upgrade and heavy oil pipeline projects appear to remain on track and will require significant supplies of heavy oil in the future. Our primary goal is to keep our projects moving forward at the best possible speed without exposing the Company to financial leverage or risk until the market recovers.

Keith Hill
President and CEO

November 13, 2008